OK Tedi Mining Limited 2005 Annual Review

OK TEDI MINING

OTML Annual Review 2005

Contents

The Project

Total Sales K3.3 billion
Gross Profit K1.5 billion

Benefits to the Nation in 2005
- Taxes paid: K446 million
- Dividends: K925 million

Benefits to the Western Province in 2005
- People's 10% Dividend Fund: K93 million
- PNG Sustainable Development Fund Projects: K53 million
- Fly River Provincial Government Royalties and Dividends: K52 million
- Mine Area Villages Royalties, Dividends and Lease Payments: K54 million
- Non-mine Area Communities Compensation and Benefits Payments: K25 million
- Wages for OTML Western Province Employees: K50 million
- Tax Credit Scheme Infrastructure Projects: K3 million

"These are excellent results reflecting not only the benefits of a strong world metal price, but also the hard work put in by the Ok Tedi people to pull back operating costs and make our operations world competitive."

Keith Faulkner, Managing Director

The Challenge

- River bed of Upper Ok Tedi is raised resulting in increased frequency and duration of over-bank flooding and sediment deposition on the floodplain.
- Dieback is progressively increasing.
- Potential for Acid Rock Drainage to occur in the river system.
- Finding an equitable balance between the financial benefits and environmental disbenefits of the mine.

"We have embarked on major studies that will result in changes to operation of the mine and concentrator and will substantially reduce the discharge of sulphides to the environment."

Alan Roberts, Chairman

Community Mine Continuation Agreements

The Community Mine Continuation Agreements commit OTML to making payments to communities or trusts set up specifically to receive these payments and distribute them on behalf of communities.

A process for reviewing the CMCAs has been developed in consultation with community leaders and with advice from independent non-government organisations, the Keystone Centre and Tanorama. Independent observer of the process is a team led by former Chief Justice, Sir Arnold Amet.

"The review of the CMCAs enables the affected communities of the Western Province and all stakeholders to help us in resetting the balance between these environmental impacts and the social economic benefits the mine brings to the nation and the affected communities."

Keith Faulkner, Managing Director

Chairman's Report

On behalf of the Board of Directors of Ok Tedi Mining Limited I am pleased to present this report on the Company's operations for 2005.

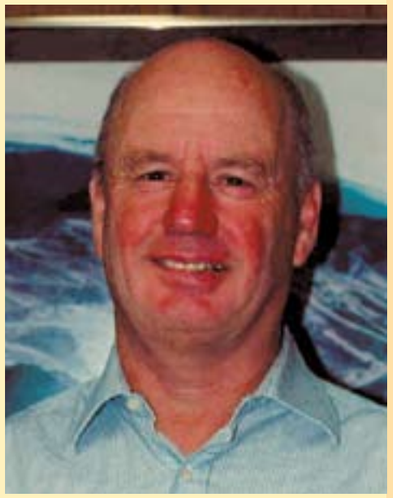
It was the operation's most successful year financially, buoyed by sustained high commodity prices and a year in which the Ok Tedi team hit most of its targets, while making important improvements to the efficiency of operations.

Safety of our employees and contract employees is a major priority for the Board and Management team. Whilst the safety statistics for the year show an improved performance over recent years, it was disappointing to see a drop in the operation's NOSA rating from 4 to 3 Stars. The audit identified a number of system improvements that need to be made to restore the rating and, more importantly, reduce the number and severity of injuries to our employees. Management will relentlessly pursue these improvements.

Environmental concerns increased in 2005 following evidence of acid rock drainage being observed along levy banks of the Fly River. Although this presents no immediate threat to the health of communities that live along the river, it is clear that we must reduce the impact of wastes discharged from the Ok Tedi operation. To this effect, we have embarked on major studies that will result in changes to operation of the mine and concentrator and will substantially reduce the discharge of sulphides to the environment. These studies include variation of the mine plan and the removal and safe storage of sulphides from the waste stream. A decision on the way forward will be taken on completion of these studies around the middle of 2006

Costs, both operating and capital, increased at an extraordinary rate during 2005, fuelled by the rapid growth in China and other Asian economies. Management of costs and business improvement initiatives for increased efficiency and productivity were a major focus in 2005 for the operations team; these cost increaeses will be relentless and their management will continue to receive a high priority.

The Board of Directors of Ok Tedi Mining Limited, and the Management team, is acutely aware of the importance of the Ok Tedi mine to all stakeholders, shareholders, impacted communities, employees and contractors, as well as to people of the Western Province and the Nation of Papua New Guinea. We recognise the enormous financial contribution it



makes to both the current and future wellbeing of the people of PNG, whilst recognising the environmental threat posed by the continued operation of the mine. Please be assured that the Board and Management of OTML are working with unremitting energy to find an equitable balance between the financial benefits and environmental disbenefits of the Mine's continued operation.

Alan Roberts
Chairman

Managing Director's Report

In 2005, OTML achieved a record profit before tax of K1.5 billion on gross sales revenue of K3.3 billion.

This was due to a year of consistent operational performance and sustained high global copper and gold prices.

Most pleasing is the dividends to our shareholders, which is a record in the mine's 25 year history.

The company realised an average copper price for the period of US$1.82 per pound, compared to US$1.33 for 2004.

Average gold price for 2005 was US$443 per ounce compared to US$411 for 2004.

Copper concentrate production for the year was 664,041 tonnes, a six per cent increase on 2004 production

Total gold production of 17.9 tonnes (574,694 ounces) was almost 10 per cent above 2004 production, keeping OTML within the top three PNG gold producers.

Full year sales revenue was K3.3 billion, 58% higher than in 2004, deriving from both the buoyant metal prices, and also improved head grades and operating efficiencies.

The results also reflect the hard work put in by the Ok Tedi people to contain costs and keep our operations world-competitive.

Benefits to Papua New Guinea

2005 was a year of record tax payments to the PNG Government, royalty payments to landowners and dividend payments to shareholders.

Dividends paid were a record K925 million, which included K759 million for the benefit of the people of Papua New Guinea.

Commensurate with the increased revenues, mining royalties were 65 per cent higher than in 2004, with the Fly River Provincial Government and mine area landowners each receiving K28 million.

Other compensation and benefits paid during the year, including land lease payments, various community trusts and Community Mine Continuation Agreements totalled K36.5 million.

These are particularly significant results, as OTML is a truly PNG company.

Eighty-two per cent of the company's dividends are distributed to the PNG people directly through the National and Western Provincial Governments, and also through the PNG Sustainable Development Program Limited, OTML's majority shareholder.

These dividends, of course, are in addition to the record company tax payments of nearly K279 million that OTML has contributed to the PNG Treasury.

These contributions to the economy underline the relationship which the Ok Tedi project has always had with the nation.

Ok Tedi's financial success is shared by the PNG people, and Ok Tedi remains PNG's greatest single economic contributor.

Safety

The safety performance by OTML workforce and contractors was comparable to world's best, but remains an aspect of our operations that require constant attention and effort.

As of 31 December 2005, OTML employees and contractors had completed the year with two lost time injuries, compared with three in 2004. However, OTML's NOSA safety rating dropped to 3 Stars in 2005 following an external audit score of 70% as opposed to the previous score of 87%. The downgrade in the NOSA rating was attributed to a shortfall in incident reporting and documentation of other aspects of our safety systems and procedures.

Following this result a review of OTML's Safety Policy by the Health and Safety leadership team was conducted and the focus shifted to behavioural change.

Correct attitudes and behaviours will assist the workforce to recognise hazards and understand clearly not to take short-cuts, and we continue to rigorously maintain the goal of "ZERO HARM".

Union Agreement

A new five year Workplace Agreement was signed with the Ok Tedi Mining and Allied Workers' Union.

With the working title "Prosperity After Ok Tedi", the 2005 Consolidated Agreement between OTML and the Union was countersigned by the Labour Department.

Many improvements to working and remuneration conditions are enshrined in the agreement.

Epesi Dabu (in the life jacket) delivering CMCA projects in the South Fly.

Our Community

In February 2005, areas of acid rock drainage (ARD) were appearing on the levees of the Fly River after an extended dry period.

These impacts are of concern, although they pose no direct threat to human health.

We responded in two ways: we told the down river communities what the data were showing, and we widened the scope of our investigations for potential options for mitigating the ARD impacts, including changes to the mine plan and process flowsheet.

These investigations will be the priority for 2006.

In addition to investigating mitigation options, and in keeping with our commitment to review the Community Mine Continuation Agreements (CMCA's) after five years, our efforts and resources over the coming year will be directed to supporting a large-scale community consultation process.

The review of the CMCA's enables the affected communities of the Western Province and all stakeholders to help us in resetting the balance between these environmental impacts and the social and economic benefits the mine brings to the nation and the affected communities.

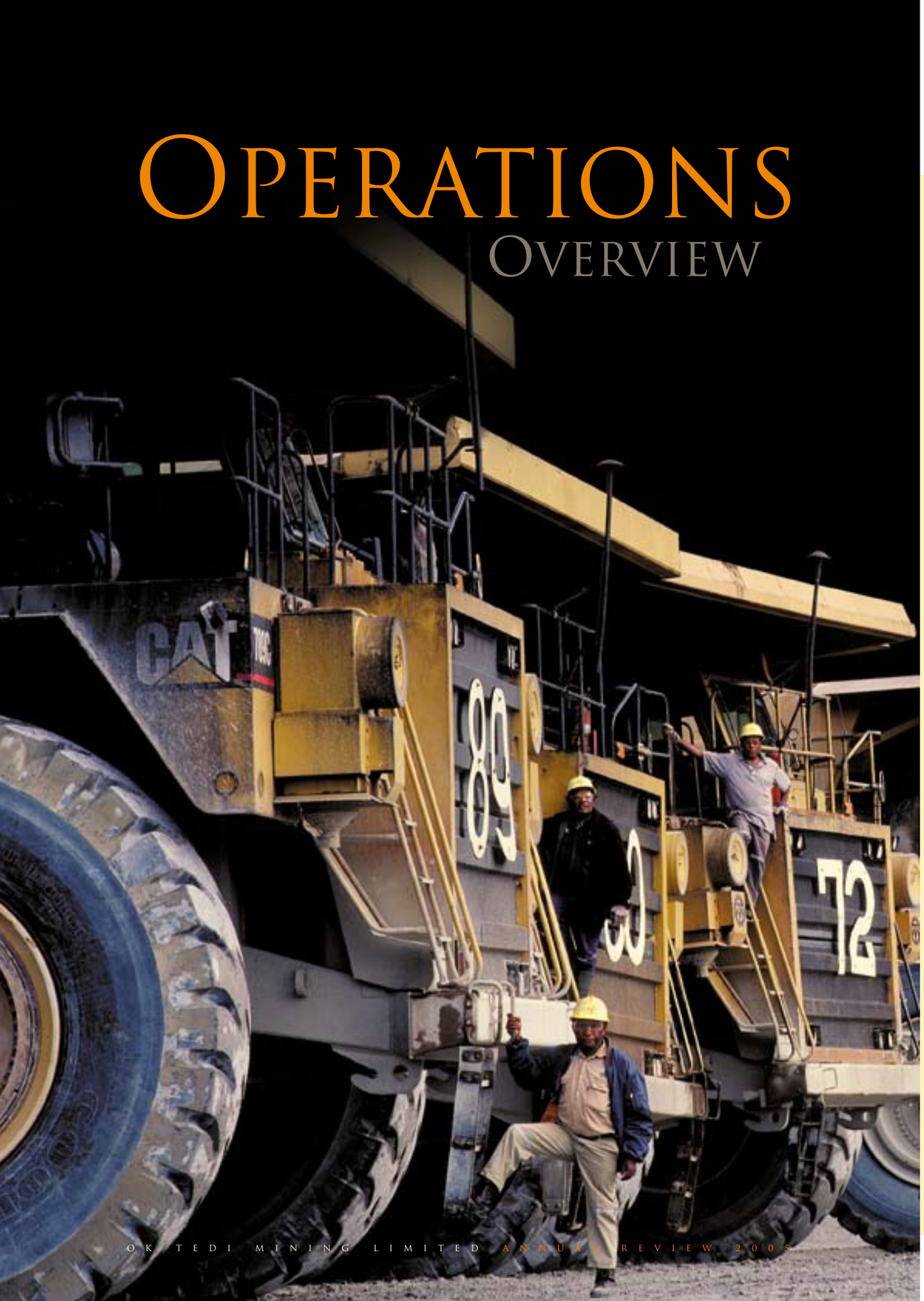
The Ok Tedi project began 25 years ago in February, 1981. It has grown up with the nation, and the contrast between glowing financial benefits and troubling environmental impacts defines the continuing dilemma we face at Ok Tedi.

OTML is a PNG company that operates in a complex economic, social, political and environmental context.

We are committed to finding an appropriate balance so that the mine can continue to generate wealth that can be used to continue to help build the nation of Papua New Guinea.

Keith Faulkner
Managing Director

Operations
Overview



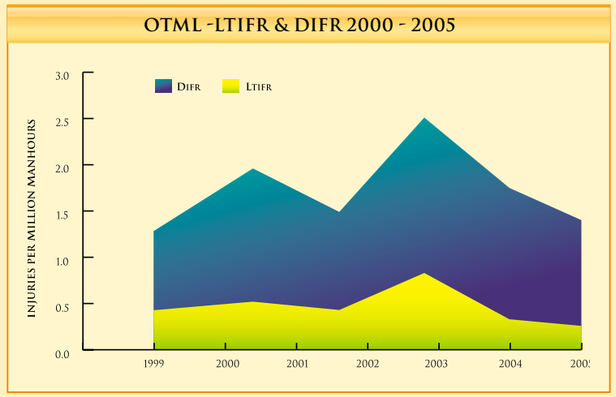
Safety Management

Safety

OTML's NOSA safety rating dropped to 3 Stars in 2005 following an external audit score of 70% as opposed to the previous score of 87%.

The downgrade in the NOSA rating was attributed to lack of incident reporting and documentation, and other aspects of the company's safety systems and procedures.

Another major change in 2005 was the safety award measure which was changed on September 1, 2005 from Lost Time Injury (LTI) free hours to Disabling Injury (DI) free months to focus efforts on striving for "ZERO HARM".



This disappointing NOSA result came at a time when a review of OTML's Safety Policy was also being undertaken by the Health and Safety Leadership Team headed by the Managing Director. Both the audit and the internal review identified a need to make a major shift in focus to behavioural change in 2006.

A set of behavioural standards required of senior management, team leaders and team members was set down and communicated. Training programs designed to re-enforce employees' accountabilities and responsibilities towards safety at the workplace, were commenced during the second half of the year.

Course participants are expected to be equipped with basic safety skills including how to carry out a risk assessment and a job analysis.

The monthly themes and tool box meetings were also revised to cater for the business needs of the company.

As of December 31, 2005 OTML employees had completed the year with a Lost Time Injury Frequency rate per million man hours of 0.22, compared with 0.33 in the previous year.

The 2005 Disabling Injury Frequency Rate per million man hours was 1.44, compared with 1.75 in 2004.

The new Health and Safety Policy, is supplemented by a set of Ten Golden Rules of Acceptable Behaviour.

OK TEDI MINING

GOLDEN RULES OF ACCEPTABLE BEHAVIOUR

1. I will not come to work while under the influence of alcohol or drugs.
2. I will not bring illicit drugs/alcohol/intoxicating substances into OTML work places.
3. I will not fight or physically assault another person in the workplace.
4. I will not intentionally damage company or other employee's property.
5. I will not remove another employee's Personal Isolation Lock or Tag.
6. I will not work on plant/or equipment without first applying my Personal Danger Tag/Lock as per the OTML Lock Out & Tag Out procedure.
7. I will not enter or work in a designated Confined Space without being trained and authorised.
8. I will always use fall protection or fall restraint when working above 2m and will always use fall protection when working from an elevated work platform.
9. I will not tamper with/or make safety devices inoperable without being authorised to do so.
10. I will not operate mobile equipment without valid authorisation.

Keith Faulkner
Managing Director

Title	Sponsor	Date Issued	Revision Status	Date Reviewed	Next Review	Page
0.4 Golden Rules	Keith Faulkner	Jan 2006	Rev 0	Dec 2005	Dec 2006	1of 1

Production Report

Mine Operations

Total waste and ore mined in 2005 was 80 million tonnes compared to a budget of 83.4 million tonnes. The total ore mined for the year was 25.4 million tonnes, somewhat short of the budget of 29 million tonnes. This was due to the ore being harder than previously experienced and this change in hardness occuring at increasing depth in the mine was underestimated.

This resulted in a lower milling rate for the year. Changes in the mine plan allowed higher head grades to be delivered to the mill offsetting the lower milling rate, whilst new mill liner configurations were introduced to restore the milling rates. The new mill liners were installed late in the year with encouraging signs of higher throughputs since installation. The deferred lower grades from the pit will be milled during the second quarter of 2006.

To manage the potential for generation of Acid Rock Drainage (ARD) in the mine area creeks, limestone is mined and co-disposed with mine waste.

During the year, 10.7 million tonnes of limestone was mined for this purpose.

Through late 2004 and early 2005 the mining operation was beginning to suffer from lack of drilling capacity as the old Marion rotary drills became too difficult to maintain at satisfactory availabilities. Lack of drilling resulted in reducing broken ore and waste stocks in the pit compromising mining flexibility. A new drill was hired in and three new Atlas Copco Viper drills were purchased. These units are now in operation and broken stocks in the pit are beginning to return to adequate levels.

Improving mine efficiencies is an important aspect and challenge for the employees and business of OTML. In early 2005, a review was undertaken to find areas of improvement. A major effort was put into road maintenance, better blast fragmentation, improving the truck dispatch system and a committed focus on reducing operating delays by the mining team.

A major capital development of the In Pit Crusher station was commenced anticipating the eventual removal of the Taranaki crusher, necessary for accessing the Taranaki/New York ore body. The In Pit Crusher upgrade at a cost of almost USD20 million will be completed within 2006.

Mill Operations

Mill operations for the year were dominated by the underestimation of ore hardness. Throughput rates were as much as 10% below estimation based on data from the milling rate of the various ore types. As the mine gets deeper, the ores are getting harder and whilst estimates for each ore type were made in setting budgets for 2005, certain ore blends proved much harder to mill. A series of investigations in conjunction with milling consultants saw a change to mill liner configurations, discharge grate and screen apertures. A majority of the changes have been implemented which have resulted in a much stabilized grinding circuit.

Improvements in throughput rates have been noted in various ore types and will be quantified as remaining changes are completed.

Copper concentrate production for the year was 664,041 tonnes, a six per cent increase on 2004 production.

Total gold production of 574,694 ounces was almost 10 per cent above 2004 production.

A total of 25.3 million tonnes of ore was milled throughout the year, with mill uptime at 93.6 per cent.

Copper in the feed averaged 0.89 per cent while gold was at 0.97 g/t during the year.

Copper recovery was at 85.1 per cent while gold recovery was at 72.5 per cent. The gravity gold circuit upgrade phase 1 was completed during 2005.

A number of improvements in maintenance, plant clean up and operating practices have combined to see steady and improved plant performance recoveries in both copper and gold, above the historically based predictions for the ore types treated.

Mine Geology and Planning

Mine geology and planning is continuing the successful strategy of providing the mill with a steady blend of feed by simultaneously mining three to four different types of ore. Current objectives include the completion of a feasibility study on using a drainage tunnel to dewater the mine.

Pilot trials are being conducted to evaluate methods of reducing the amount of sulphur in mill tailings. At the same time, mining in the open pit will be re-sequenced to defer the mining of ore and waste with elevated sulphur content.

Re-sequencing will also be applied to access better ore first, dependent upon drainage tunnel availability. Attention is also being given to improving management of fluorine in concentrate.

Blasting techniques are being re-evaluated to improve blast hole sampling procedures, and achieve better fragmentation and flow-on benefits, including higher mill throughput and mining productivity. Also under investigation are means of improving shovel efficiency while

Mine and Mill Operations

mining ore.

The resource model will be further revised with a focus on skarn ore beneath the open pit, as a first step towards evaluating the resource for underground mine potential.

Business Improvement Program

A company-wide Business Improvement Program (BIP), aimed at modernising operations and keeping OTML competitive was introduced in the second quarter of 2005. The business improvement strategy focused on three key areas which included Cost Reduction, Services Re-design, and Operational Practices.

Under Operational Practices, two task teams were formed at the mine and mill to introduce three new "back-to-basic" work practices namely '**ICARE**' (Identify, Clean, Arrange, Regulate, Everytime and VPM (Visual Performance Measurement) and Leading and Managing Change (LMC).

These concepts are already making a positive contribution to efficiency and safety in work areas within the mine and mill. The program will be extended to other parts of the operation in 2006.

Exploration

Total expenditure on exploration in 2005 was a little in excess of US$6 million. This included helicopter supported aeromagnetic survey at 100m spacing, and 3D interpretation of the aeromagnetic survey data. Anomalies known by the names of Marrakesh, Las Vegas, London, and Mt Kwang were drilled following previous sampling but did not show any significant result. Wurtzburg was sampled and two holes drilled. No significant assay result was achieved, but alteration signs are encouraging and warrant further work. A total of 11,600m was drilled, of which 65% was directed towards the Underground Skarns prospect lying below the Mt Fubilan pit. Copper intersections are promising enough to deserve more drilling in order to provide a better definition of the resource.

In the coming year exploration will have a budget of US$5 million. It is planned to drill 9,250 metres, 59 per cent of which expenditure will be directed at the Underground Skarns prospect.

Detailed field work and follow-up drilling will be undertaken at Wurtzburg, with a similar program at Mt Gilor and Warama.

Grass roots exploration will be mobilised to assess the Betep and Mt Binnie prospects.

Kiunga Operations

The completion of the third copper shed in December 2005 means OTML can now hold an additional 30,000wmt of copper concentrate during an extended dry period.

The new shed has increased the holding capacity of Kiunga stock inventory sheds to approximately 100,000 wet metric tonnes.

Other Kiunga maintenance work earmarked for 2006 include stabilisation of the wharf where river erosion has cut in behind the government wharf adjacent to OTML's facility and compromised the area between the two. A major program of sheet piling and strengthening was approved during 2005.

Environmental Management

Environmental Management

Environment

Comprehensive environmental monitoring of the mine and its areas of impact was maintained throughout 2005.

In late 2001, when the Mining (Ok Tedi Mine Continuation (9th Supplemental) Agreement) Act of 2001 was passed it was based on the knowledge that ecological values had already been significantly impacted through riverine disposal practices over the previous 16 years, and that with continuance of the operation, these impacts would continue to grow.

The Environment Regime contained within that Act is designed to regularly give sufficient data and commentary to the State to enable it to make informed decisions on impacts on ecological and human health aspects in the receiving environment as the mine continues.

With State approval, the operation disposes of approximately 55 Mt of waste rock and 30 Mt of tails into the upper Ok Tedi on an annual basis.

The Regime obligates OTML to report findings of environmental activities, for the period ending 30th June, by the end of September each year.

This reporting obligation was again met in 2005, together with a compendium of 42 supporting documents generated during the previous 12 months.

While this 2005 Annual Environmental Report can be accessed on OTML's web site (www.oktedi.com), some of the issues raised are presented in this Annual Report.

Floodplain Inundation Modelling

Following the Sediment Transport Modelling during 2003, and the launching of the French radar based ENVISAT satellite, the creation of a DEM (digital elevation model) has been possible which, in turn, has permitted the development of a Floodplain Inundation Model.

The main impact will result in these areas being flooded for much longer periods of time each year and, in some cases, will result in a significant change of ecosystems from forest and especially grasslands to a wetland environment.

Consistent with the sediment transport model's prediction of mine-derived sediment being deposited in the 180 km stretch of the lower Middle Fly channel between Everill Junction and Manda for hundreds of years, this increased duration of flooding will result in an eventual permanent change in the floodplain ecosystem of this area.

Acid Rock Drainage in the Middle Fly Levees

A field campaign was undertaken in early 2005 to delineate the extent of sulphur-enriched sediments identified in earlier studies, and to assess the quality of water in contact with these sediments.

Twelve of the 23 initial sites sampled indicated the presence of low pH waters (i.e. pH <5) with high concentrations of Acid Rock Drainage (ARD) related sulphate and dissolved metals.

While a return to higher pH levels occurred during the wet season in April to September, the evidence of the ARD process was present again with the onset of the drier conditions in October.

Much of OTML's environmental effort is currently focussed on the levee ARD issue. This includes:

- geochemical and hydrogeochemical studies of the floodplain environments including the design and implementation of groundwater monitoring programs
- extension of the ARD predictive models, utilising the results of the sediment transport and floodplain inundation models.

From R -L, Henry Kundapen, Nicko Paulus and Ikil Grit. Activity undertaken is Floodplain topographic survey and pore water quality measurement at site T27, ARM 259 near Bai Lagoon, Middle Fly.

In the longer term, water level and inundation frequency on the floodplain are both predicted to increase up to mine closure, and for decades after.

While tailings are being discharged to the river system, the levees will continue to accumulate sediment.

Deposition of sulphidic material will therefore increase if the current mineralogical composition of tailings remains the same.

At the time of finalising this 2005 Annual Review, OTML is actively seeking to develop a new strategic management plan for the mine waste and tailings to address the future impacts arising from them.

A number of options are being assessed, including the variation of the mine plan and the removal and subsequent safe storage of sulphides from the tailings stream.

Community Health Study

Community Health Study hair samples at Sapuka, South Fly.

Community Health Study

The Community Health Study aims to determine total metal uptake pathways of the communities living within the river system downstream of the mine.

Data being collected in the study includes:

- dietary surveys that include food frequency and unit consumption components for core and bio-accumulator food products, together with a market basket survey to enable analysis of exposure to contaminant metals via the food pathway
- surface soil and sediment monitoring for more than 20 representative village communities (village garden soils, natural and active floodplain sediments)
- drinking water monitoring for the principal sources at each of the control and impact villages; surface water monitoring for total and dissolved metals at representative sites in each of the study's six zones to determine exposures due to recreational water use
- air monitoring at Tabubil, Kiunga and sites along the highway linking these two centres.

When completed in the first half of 2006, the study's data will be compared with recognised international health standards and will evaluate three of the Regime's six values relating to water portability, and the edibility of aquatic and terrestrial foods. While these values are currently assessed separately, this integrated study will determine total exposure for humans within the catchment, from all potential exposure sources.

At present, there is not direct human impact but there is an impact on the river ecology as the river is under stress.

The fish in the river and garden produce along the system are safe to eat.

Dieback & Recovery

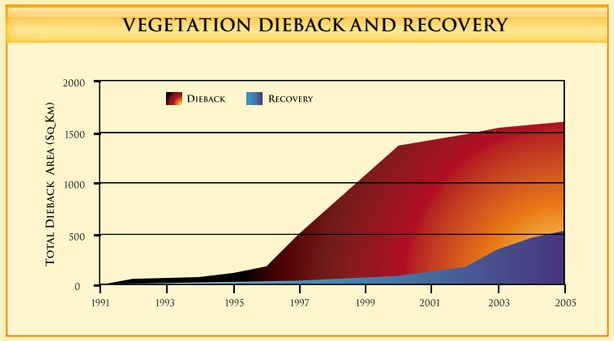
Dieback

The 2005 dieback mapping shows the area impacted by dieback increased 2% to a total of 1,588 km2 while a 15% increase in recovery shows a total of 527 km2 (about a third of the total impacted area) under some form of recovery.

Recovery includes either re-instatement of the original forest species, the establishment of other forest species, or the conversion of forest to a different vegetative or ecological land system e.g. grassland or wetland.

While the total area likely to be impacted by dieback is approximately 2,500 km^2, most of the future impact will occur in the Middle Fly.

The extent and rate of recovery is very much influenced by climatic conditions.



Community and Business support

Community Relations

OTML's Communities

Since the withdrawal of the court class action by nine villages in the Fly system in January 2004, two village groups, which initially declined to join their respective Community Mine Continuation Agreements have joined the CMCA process.

Lower Ok Tedi village, Iogi, together with Ankit, a member of the North Ok Tedi region, went through a consultative and negotiation process with OTML before signing their respective agreements towards the end of the year.

Other non-CMCA villages were also visited and given the opportunity during the year to join the CMCA.

Other achievements of the Community Relations team in 2005 included the formation and launching of the Fly-ZAMBY Association, as spokesperson for the Middle Fly people who are affected by OTML operations.

Fly-ZAMBY is managed by a Board of Representatives drawn from 18 villages in the region.

Community Relations also secured long term land leases for both Aiambak and Tapila field bases which will be used to store CMCA project materials.

Community consultation patrols by CR officers for 2005 began with the rollout of Acid Rock Drainage information.

The ARD information was discussed with Middle Fly leaders soon after OTML scientists saw patches of dead grass and other vegetation on the levee banks of the river in the Middle Fly area.

The dead patches, found between Manda and Everill Junction, looked as though they had possibly been affected by mine waste.

Community Relations officers delivered the ARD information to all of the 148 villages along the Ok Tedi-Fly River system, including the six mine villages surrounding Tabubil and the mine pit.

While ARD has no direct impact on people, there is an impact on the river. The river is under stress but there are fish in the system, and they remain edible. The water is still drinkable as long as water isn't taken from places where ARD can be seen. The food from gardens is still safe to eat.

This and other important information continues to be passed to villagers.

Towards the end of the year, strategic planning focussed on the process for the CMCA Review began.

The process for the review was developed in consultation with community leaders and with advice from independent non-government organisation, the Keystone Centre.

The review is being conducted by a CMCA Working Group which should be set up by the second quarter of 2006. Members of the Working Group are expected to include representatives from each CMCA region, PNG National Government, Fly River Provincial Government, PNG Sustainable Development Program Limited and OTML.

There will be extensive consultation with communities throughout the CMCA Review which is being facilitated by independent non-government organisation, the Keystone Centre. Independent Observer to the review process is former Chief Justice of PNG, Sir Arnold Amet.

Economic Programs

OTML has been active in assisting local businesses that represent local communities to plan for a future in the post mining economy of the Western Province.

The company has been actively promoting the message that businesses with a working business plan have a greater chance of survival in their early years and achieve higher revenue growth and greater profits than those businesses that do not work to a plan.

Through directors and other corporate training programs, many community and business leaders understand that good corporate governance is the foundation stone of a successful business.

Regional Development

In general, OTML's current commercial relationship with community partners is the materialisation of the company's commitment to create a responsible balance of our continuing mining operations, environmental effects, sustainable development in the Western Province, and national economic gain.

Heduru Trust – General Compensation

Communities along the Ok Tedi and Fly River system also received general compensation payments from OTML in the first quarter of the year. A total of 120 villages (830 clans) in the North Fly, Middle Fly and South Fly and Lake Murray received more than K9.2 million in general compensation.

The general compensation package is part of OTML's obligations under the Restated Eighth Supplemental Agreement.

CMCA Projects

The Regional Development Department delivered a total of 311 CMCA projects in 2005.

Alice River Trust saw the completion of 35 projects while Dudi and Kiwaba achieved 18 and 60 projects respectively. Manawete received 37 projects, Middle Fly 52 and Mine Villages realised 44 projects.

Under the Nupmo trust, 7 projects were implemented, 19 were completed for Suki-Fly-Gogo while Tutuwe achieved 30 and Wai-Tri completed 9 projects in the year.

Funding for the eight CMCA Trusts and six Mine Villages were distributed as in the tables below and opposite.

DUDI DEVELOPMENT TRUST

Dudi Development Trust represents over 9,000 people in villages along the South Bank of the South Fly Region. Payments made to Dudi trust from 2001 to 2005:

Investment Fund	K3.1 million
Development Fund	K2.5 million

KIWABA DEVELOPMENT TRUST

Kiwaba Development Trust represents over 4,000 people from 13 villages in the Kiwai and the Wabada group of islands in South Fly. Payments made to Kiwaba trust from 2001 to 2005.

Investment Fund	K1.9 million
Development Fund	K3.7 million

MANAWETE DEVELOPMENT FOUNDATION

The Manawete Devleopment Foundaiton represents over 10,000 people in 21 villages along the North Bank of South Fly region. Payments made to Manawete from 2001 to 2005:

Investment Fund	K1.9 million
Development Fund	K3.7 million

MIDDLE FLY RIVER DEVELOPMENT FOUNDATION

The Middle Fly River Development Foundation represents over 18,000 people from 16 villages. Payments made to the trust by OTML from 2001 to 2005:

Community Members	K12.9 million
Children's Fund	K 7.8 million
Development Fund	K25.1 million

NUPMO DEVELOPMENT FOUNDATION

Nupmo Development Foundation represents over 3,000 people from 17 villages in the North Ok Tedi region. Payments made to Nupmo between 2001 and 2005:

Community Members	K3.9 million
Investment Fund	K1.1 million
Development Fund	K0.9 million

Life at Ok Tedi

Life at Ok Tedi

Over 15,000 residents of Tabubil enjoy the benefits of a well planned and safe town.

The Infrastructure Support and Services (ISS) Department oversees the management and maintenance of houses and offices, roads and paths, recreation facilities and the provision of water and sewerage to the towns of Tabubil and Kiunga and the dredge site at Bige.

ISS is also combining with other OTML sections, including Asset Protection and Public Health, and relevant government authorities to ensure the reputation of Tabubil and Kiunga is reflected in the behaviour of residents.

Some examples of civil programs and awareness being conducted to encourage and stimulate acceptable behaviour in Tabubil and Kiunga are the campaign against HIV/AIDS, health and hygiene programs for fast food outlets, use of speed guns and breathalysers and the application of zero tolerance by the police force in the community.

In addition to community issues, OTML is developing a Civil Disaster Plan in conjunction with the PNG Disaster Plans officers and Western Province officials.

Security upgrades are ongoing within the Tabubil international airport and Kiunga port facilities to comply with various global conventions and requirements including the International Ship and Port Facility Security Code.

SUKI FLY GOGO DEVELOPMENT FOUNDATION

Suki Fly Gogo represents almost 8,000 people in 16 villages in the South Fly region. Payments made to Suki Fly Gogo trust between 2001 and 2005:

Investment Fund	K3.7 million
Development Fund	K2.0 million

TUTUWE DEVELOPMENT FOUNDATION

The highway region covers 29 villages along the Tabubil Kiunga road. Payments made to Tutuwe between 2001 and 2005:

Community Members	K3.7 million
Investment Fund	K2.3 million
Development Fund	K3.2 million

WAI TRI DEVELOPMENT TRUST

Wai Tri covers 16 villages in the Lower Ok Tedi region with a total population of almost 4,000 people. Payments made to Wai Tri between 2001 and 2005:

Future Generation Fund	K4.6 million
Development Fund	K11.1 million
Iogi Development Projects	K0.3 million

MINE VILLAGES

Under the CMCA's, Mine Villages comprise six communities located within the Special Mining Lease. They are Kavorabip, Atemkit, Finalbin, Bultem, Wangbin, and Migalsimbip. The total population of the six communities is over 2,000. Payments made to Mine Villages between 2001 and 2005:

Kavorabip	K1.8 million
Finalbin	K3.7 million
Atemkit	K1.8 million
Wangbin	K4.8 million
Bultem	K1.8 million
Migalsimbip	K2.1 million

ALICE RIVER TRUST (ART)

The lower Ok Tedi region is also benefiting from a 1997 agreement which saw the establishment of the Alice River Trust (ART).

Landowners' & Land Users' Fund	K10.1 million
Future Generations' Fund	K 1.8 million
Development Fund	K19.5 million

Training and Recruitment

Competitive Edge Program

Throughout 2005, a total of 315 OTML employees attended various modules of the Competitive Edge Program (CEP) which is aimed at company employees occupying supervisory positions. Others in non-supervisory positions identified as potential leaders also participated in the program, underlining OTML's emphasis on leadership development.

The 7 Habits Program

The '7 Habits for Highly Effective People' program was introduced in 2005. OTML's Corporate Training engaged the services of UNITECH Development Consultancy Limited to run this five-day high profile and internationally recognised program.
The courses were a great success, with 76 senior employees participating.
HR has a further seven workshops scheduled to run in 2006.

Trade Training

OTML is committed to the training of the next generation of PNG's tradesmen and women.
Thirty new apprentices have been selected to commence in 2006.
With this intake, the total number of apprentices currently in training across the thirteen trade categories and at various stages of their training is 143.

Post Trade TAFE Training

During 2005 OTML continued to engage TAFE in providing advanced post trade training to tradesmen and women, including contractors.
The focus of the training program was in the core electrical and mechanical trade areas and in May 2005, 15 participants successfully completed their modules and were awarded Diplomas in Technology Engineering, six in electrical and nine in mechanical.
OTML also continues to support the building trade diploma program, as it is important for the village housing scheme.

Graduate Development Program

A total of 196 graduates from various disciplines have progressed through the two year Graduate Development Scheme since its inception in 1988.
A total of 32 new graduates were hired in 2006, an increase from 25 new graduates in 2005.
The 2006 intake is the largest since inception, confirming OTML's leadership in developing tertiary qualified professionals in PNG.
Of the 196 graduates who have passed through the program, 25 are from the Preferred Area which refers to districts that come under the North Fly electorate in Western Province and Telefomin in West Sepik.
Graduate rosters and salaries were again reviewed and improved in 2005, so that Terms and Conditions for Graduates are highly competitive when compared to similar graduate schemes in PNG, particularly in the mining industry.

OTML's only woman welder, Serah Tito, receives her Apprentice-of-the-Year Award from Labour and Employment Minister, Roy Biyama.

Human Resource Management

Recruitment & Retention

During 2005, mining operations in the region continued to experience difficulty in recruiting and retaining mining professionals, and OTML was no exception.
This was a driver for the review of the employee benefits and entitlements packages. During 2005, the benefits and entitlements of employees under the terms and conditions of their employment contracts were reviewed and improved. Improvements in leave rosters and travel entitlements in particular have seen an increase in interest from overseas applicants to advertised positions.
Other strategies to offset recruitment difficulties include wider use of Internet advertising, an increased intake of Graduates onto the Graduate Development Scheme in 2006, and the appointment of quality final year Tradesmen from the OTML Apprenticeship Training Scheme to permanent positions.
Of the 2,050 employees, including trainees, 95% are Papua New Guinea nationals.
Another unique incentive OTML offers to its employees is the Shares In Success Scheme (SISS). SISS was partly set up to retain contract employees, especially at this time, when there is intense competition for professional skills in the mining industry. It is also designed to encourage employees to work for and share in the success of the company.
OTML will continue to review employee Terms & Conditions, benchmarking world trends in remuneration and other employment benefits in order to maintain a competitive edge.

Dependant Children's Scholarship Program.

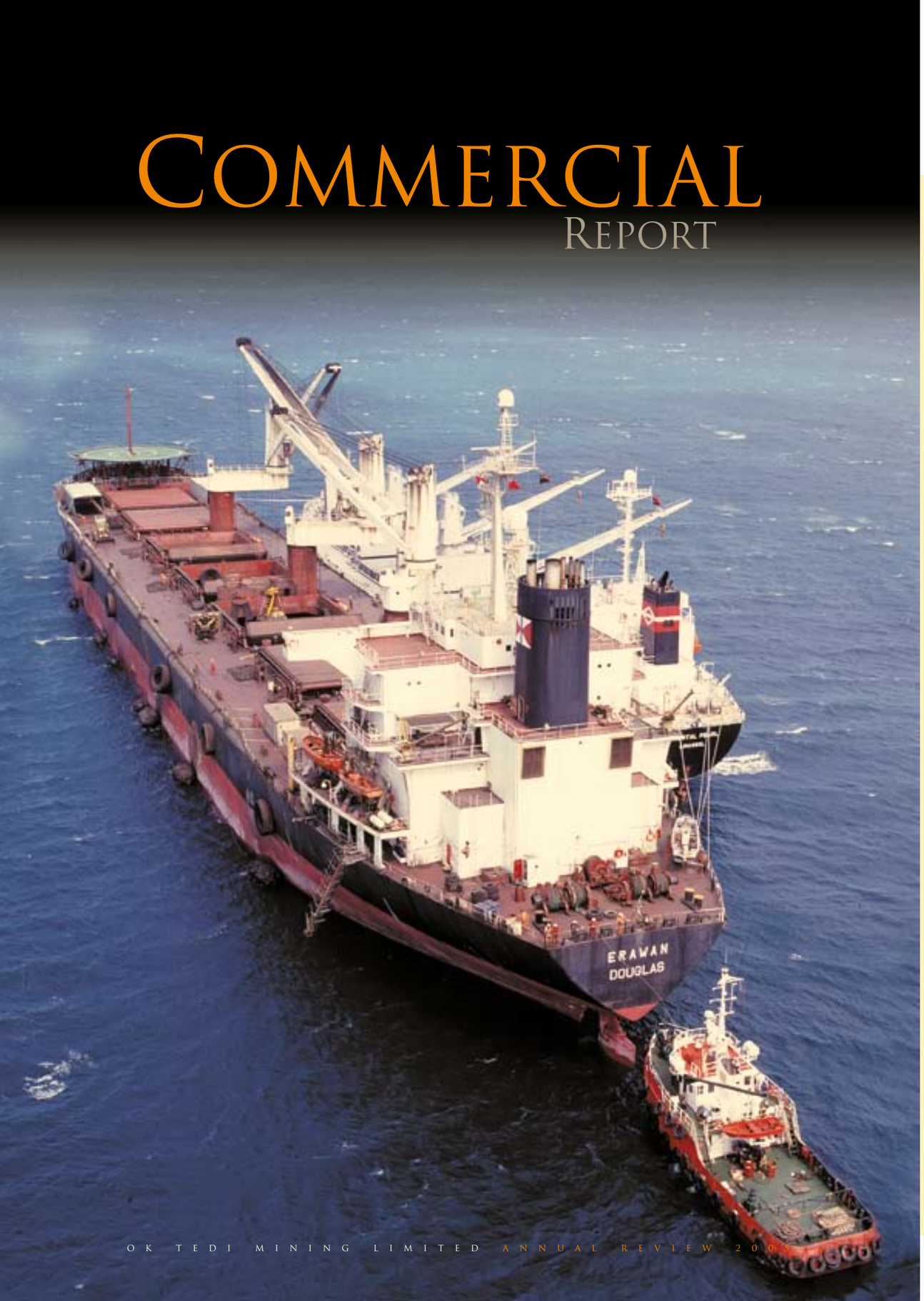
Every year OTML assists employee parents in providing ten two-year sponsorships for selected children to attend recognised institutions, including universities and colleges in Papua New Guinea.
In 2005, three dependants were assisted through the program, and by the time this report is published 13 dependant students would have been assisted under the program.

Consolidated Agreement

A feature of the 2005 Industrial Relations year was the signing of a new remuneration and benefits deal between the company and the principal labour union.
With the working title "Prosperity After Ok Tedi", the 2005 Consolidated Agreement between OTML and the Ok Tedi Mining and Allied Workers' Union was signed by MD Keith Faulkner, union president Benny Puapakai and Labour Department first assistant secretary Maria Lovaga.
Amongst many improvements to working and remuneration conditions enshrined in the agreement are:

- Improvements to the home ownership scheme
- Superannuation contributions
- Salary increases and redundancy payments
- Improvements in field allowances, higher duties allowances, leading tradesmen and operators allowances
- Full medical coverage
- Basic skills training, employee assistance program and exit counselling in preparation for mine closure
- Educational assistance.

Commercial Report



Marketing Report

The year 2005 managed to greatly outstrip 2004 in respect of prices for copper, gold and silver.

Whilst the copper price fluctuated as it trended higher in 2004, averaging US$1.30/lb, the price increased in every month but one through 2005, averaging US$1.67/lb. The gold price averaged US$444/oz in 2005, up from US$409/oz in 2004 and silver averaged US$7.30/oz in 2005 compared with US$6.66/oz in 2004.

Particular highlights were copper breaking the $2.00/lb barrier for the first time (in money of the day) and gold breaking through $500/oz for the first time since 1981.

Total stocks remained at historically low levels through the year with London Metal Exchange stocks bottoming at an unprecedented low of just over 25,500 tonnes in July.

A modest stock build up in the second half of the year made no impact on the relentlessly increasing price.

Increased production in response to increasing prices would normally be expected but technical difficulties at many mines and smelters plus a number of major smelter closures for maintenance combined to limit this expected response.

The most outstanding feature of the copper market in 2005 which has set it apart from any other year has been the growing involvement of various investment funds on both long term and short term bases.

It is debatable to what extent these funds have contributed to price increases in various commodities but there is no doubt that their influence has been significant.

Whilst it has been all good news for copper producers, copper consumers are faced with record prices for their raw materials and while these prices encourage expanded production they also encourage substitution.

An inevitable result of soaring commodity prices is fabricators switching to alternative materials if price increases cannot be passed on to consumers.

There is evidence of this happening in the market now but the interaction of all of the above mentioned factors has resulted in the copper price continuing to climb.

In mid 2005, the gold price broke out of the $420/oz to $440/oz range where it had fluctuated for many months and surged towards $500/oz, breaking through that barrier in late 2005.

Whilst this is a 25 year high, the price has some way to go before reaching the record price of US$850/oz (or $2,100/oz in 2005 dollars), achieved in 1980.

Gold is seen as a safe haven in times of political and economic instability.

Continued uncertainty over the US economy dominated by the twin budget and trade deficits, the possibility of a bout of inflation due to increasing oil prices, possible world conflicts, demand for jewellery, and the strong Chinese demand for most commodities have all combined to push the gold price to its present level.

As is apparent from the 2005 result, OTML is well positioned to take advantage of strong markets.

Whilst OTML has had to pay smelters increased treatment and refining charges in 2005 due to a global surplus of concentrate, the amount paid as a percentage of copper and gold prices has been relatively low.

These charges peaked in the first half of 2005 and began to moderate towards the end of the year as a number of large mining operations failed to reach projected output.

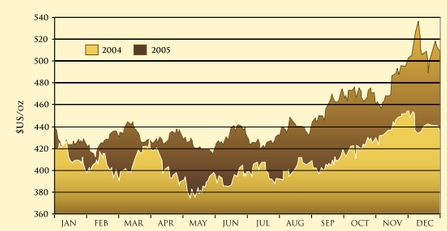
Ok Tedi was one of the few major copper producers to meet or exceed production expectations in 2005.

Ok Tedi continues to maintain a fully sold position, focusing on Asian smelters on the basis of market growth and market security, and to minimise ocean freight costs.

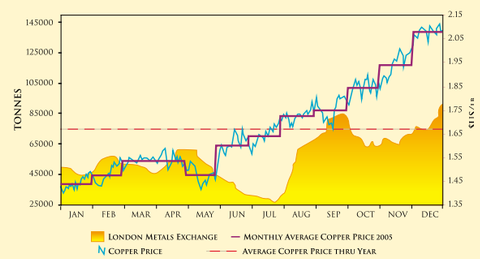
711,000 tonnes of concentrate containing 205,000 tonnes of copper, 15,500 kg of gold and 44,000 kg of silver were delivered to smelters in Japan, Korea, China, the Philippines, India and Germany in 2005.

In addition 3,000kg of gold in gold concentrate were delivered to smelters in Japan and Korea.

GOLD PRICE



LME COPPER PRICE & STOCKS - 2005



Key Statistics

	CY 2005 ACTUAL	CY 2004 ACTUAL	VARIANCE	%
MINE PRODUCTION				
Ore Mined (tonnes '000)	26,043	26,311	(268)	-1.0%
Waste Mined - incl limestone (tonnes '000)	53,950	46,927	7,023	15.0%
Total Material Mined (tonnes '000)	79,993	73,238	6,755	9.2%
Additional Limestones (tonnes '000)	10,732	7,298	3,434	47.1%
Average Material Mined/day (tonnes '000)	219	200	19	9.5%
Headgrade - Copper (%)	0.89	0.80	0.09	11.3%
Headgrade - Gold (g/t)	0.97	0.88	0.09	10.2%
MILL PRODUCTION				
Mill Throughput (tonnes '000)	25,351	26,221	(870)	-3.3%
Ave Tonnes Milled/day (tonnes '000)	69.5	71.6	(2.1)	-2.9%
Recoveries - Copper (%)	85.1	82.6	2.5	3.0%
Recoveries - Gold (%)	72.5	70.5	2.0	2.8%
Concentrate Production (dmt)	664,041	627,762	36,279	5.8%
Contained Copper (t)	192,978	173,370	19,608	11.3%
Contained Gold (kg)	14,867	15,365	(498)	-3.2%
Contained Silver (kg)	40,984	36,091	4,893	13.6%
Gravity Gold (kg)	3,008	948	2,060	217.3%
Copper Content in Concentrate (%)	29.1%	27.6%	1.5%	5.4%
SALES				
Concentrate Shipments (dmt)	711,215	598,622	112,593	18.8%
Contained Copper (t)	204,840	166,328	38,512	23.2%
Contained Gold (kg)	18,488	15,272	3,216	21.1%
Contained Silver (kg)	44,033	35,217	8,816	25.0%
Concentrate Inventory Total (dmt)	50,191	98,965	48,774	49.3%

FINANCIAL US $				
Operating Revenue ('000)	1,077,610	660,015	417,595	63.3%
Total Operating Costs ('000)	316,958	301,842	(15,116)	-5.0%
Operating Costs/Revenue (%)	29.4%	45.7%	16.3%	35.7%
Net Profit After Tax ('000)	318,176	133,322	184,854	138.7%
Average Copper Price (realised per pound)	1.82	1.33	0.49	36.8%
Average Gold Price (realised per ounce)	443	411	32	7.8%
Net Assets ('000)	412,622	400,866	11,756	2.9%

Resource and Reserve Statement

Resource and Reserve Statement as at 31st December 2005

ORE RESOURCE				ORE RESERVE				CONVERSION
Category	**Mtonnes**	**Cu%**	**Au g/t**	**Category**	**Mtonnes**	**Cu%**	**Au g/t**	**Resv/Reso**
Measured	328	0.79	0.94	Proven	192	0.86	1.08	59%
Indicated	350	0.56	0.68	Probable	22	0.80	1.32	6%
Inferred	177	0.49	0.68					
Total	**854**	**0.63**	**0.78**	**Total**	**214**	**0.85**	**1.11**	**25%**

Resource and Reserve Statement as at 31st December 2004

ORE RESOURCE				ORE RESERVE				CONVERSION
Category	**Mtonnes**	**Cu%**	**Au g/t**	**Category**	**Mtonnes**	**Cu%**	**Au g/t**	**Resv/Reso**
Measured	361	0.79	0.92	Proven	226	0.85	1.04	62%
Indicated	352	0.56	0.67	Probable	24	0.76	1.26	7%
Inferred	176	0.49	0.68					
Total	**890**	**0.64**	**0.78**	**Total**	**250**	**0.84**	**1.06**	**28%**

The information in the tables above relates to Mineral Resources and Ore Reserves based on information compiled by Michael Humphreys and Karl Smith (respectively) who are Members of the Australian Institute of Mining and Metallurgy. Michael Humphreys and Karl Smith are full-time employees of OTML. Karl is also a member of the PNG IE.

Michael Humphreys and Karl Smith have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity to which they are undertaking to qualify as a competant person as defined in the 1999 edition of the Australasian code for reporting of Mineral Resources and Ore Reserves. Michael Humphreys and Karl Smith consent to the inclusion in the table of the matters based on their information in the form and context in which it appears.

Original signed by:

MICHAEL HUMPHREYS
Senior Resource Analyst

KARL SMITH
Manager Mine Planning

KEITH FAULKNER
Managing Director

January 2006

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

INDEPENDENT AUDIT REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

AUDIT OPINION

In our opinion,

a) the financial report of Ok Tedi Mining Limited:

- gives a true and fair view of the financial position of Ok Tedi Mining Limited and the Ok Tedi Mining Group as at 31 December 2005 and of their performance for the year ended on that date, and

- is presented in accordance with the Companies Act 1997, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea

b) proper accounting records have been kept by the company as far as appears from our examination of those records; and

c) we have obtained all the information and explanations we have required.

This opinion must be read in conjunction with the rest of our audit report.

SCOPE

The financial report and directors' responsibility

The financial report comprises the balance sheet, profit and loss account, statement of changes in equity, statement of cash flows, and the accompanying notes to the financial statements for Ok Tedi Mining Limited (the company) and the Ok Tedi Mining Group (the group) for the year ended 31 December 2005. The group comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Companies Act 1997. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with International Standards on Auditing, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Companies Act 1997, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea, a view which is consistent with our understanding of the company's and the group's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

We read the other information in the Annual Report to determine whether it contained any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of the CPA Papua New Guinea and the Companies Act 1997.

By: S C Beach
Registered under the Accountants Act 1996
Lae

31 January 2006

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTE	COMPANY 2005 K'000	COMPANY 2004 K'000	CONSOLIDATED 2005 K'000	CONSOLIDATED 2004 K'000
OPERATING REVENUE:					
Sales Revenue	2(a)	3,308,327	2,088,363	3,308,327	2,088,363
Other Operating Income	2(b)	21,230	2,972	21,230	2,972
		3,329,557	2,091,335	3,329,557	2,091,335
Less: Operating Costs	3(a)	1,797,297	1,361,173	1,797,297	1,361,173
PROFIT FROM OPERATING ACTIVITIES		**1,532,260**	**730,162**	**1,532,260**	**730,162**
Net Finance Costs	3(b)	39,922	29,941	41,916	13,163
PROFIT BEFORE INCOME TAX		**1,492,338**	**700,221**	**1,490,344**	**716,999**
Income Tax Expense	4	445,059	207,196	445,036	210,899
NET PROFIT AFTER INCOME TAX		**1,047,279**	**493,025**	**1,045,308**	**506,100**

This statement is to be read in conjunction with the notes on pages 34 to 54

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTE	SHARE CAPITAL K'000	HEDGE RESERVE K'000	RETAINED EARNINGS K'000	COMPANY TOTAL K'000	CONSOLIDATED RETAINED EARNINGS K'000	CONSOLIDATED TOTAL K'000
BALANCE AT 31 DECEMBER 2003		237,929	(38,468)	439,790	639,251	431,943	631,404
Net profit for the year		-	-	493,025	493,025	506,100	506,100
Dividends paid/payable	21	-	-	(395,078)	(395,078)	(395,078)	(395,078)
Change in fair value of derivative financial instruments	27	-	(6,556)	-	(6,556)	-	(6,556)
Tax effect of change in fair value of derivative financial instruments	17	-	1,967	-	1,967	-	1,967
BALANCE AT 31 DECEMBER 2004		237,929	(43,057)	537,737	732,609	542,965	737,837
Net profit for the year		-	-	1,047,279	1,047,279	1,045,308	1,045,308
Dividends paid/payable	21	-	-	(925,050)	(925,050)	(925,050)	(925,050)
Change in fair value of derivative financial instruments	27	-	(30,863)	-	(30,863)	-	(30,863)
Tax effect of change in fair value of derivative financial instruments	17	-	9,259	-	9,259	-	9,259
BALANCE AT 31 DECEMBER 2005		237,929	(64,661)	659,966	833,234	663,223	836,491

This statement is to be read in conjunction with the notes on pages 34 to 54

BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTE	COMPANY 2005 K'000	COMPANY 2004 K'000	CONSOLIDATED 2005 K'000	CONSOLIDATED 2004 K'000
CURRENT ASSETS:					
Cash and Cash Equivalents	5	235,267	267,089	245,235	271,530
Trade and Other Receivables	6	490,091	150,828	490,091	150,828
Inventories	7	243,644	308,037	243,644	308,037
Other	8	26,990	31,250	27,286	31,250
Derivative Financial Instruments	27	1,936	2,462	1,936	2,462
Total Current Assets		**997,928**	**759,666**	**1,008,192**	**764,107**
NON-CURRENT ASSETS:					
Inventories	9	-	-	-	-
Property, Plant and Equipment	10	355,863	353,042	355,863	353,042
Pre-production Expenditure	11	64,671	75,020	64,671	75,020
Restoration and Rehabilitation	12	42,173	50,608	42,173	50,608
Financial Assurance Fund	26	123,678	98,055	126,831	103,268
Derivative Financial Instruments	27	1,002	1,300	1,002	1,300
Other	13	34,541	38,894	34,541	38,894
Total Non-current Assets		**621,928**	**616,919**	**625,081**	**622,132**
Total Assets		**1,619,856**	**1,376,585**	**1,633,273**	**1,386,239**
CURRENT LIABILITIES:					
Trade and Other Payables	14	120,776	98,807	120,776	98,807
Dividends Payable	21	-	81,642	-	81,642
Current Income Tax Liabilities	15	174,787	20,723	174,851	20,723
Provisions	16	89,798	59,526	80,649	55,655
Derivative Financial Instruments	27	35,183	17,704	35,183	17,704
Total Current Liabilities		**420,544**	**278,402**	**411,459**	**274,531**
NON-CURRENT LIABILITIES:					
Derivative Financial Instruments	27	69,867	58,887	69,867	58,887
Deferred Income Tax Liability	17	14,915	34,451	14,813	34,436
Provisions	18	29,269	29,548	48,616	37,860
Restoration and Rehabilitation	19	252,027	242,688	252,027	242,688
Total Non-current Liabilities		**366,078**	**365,574**	**385,323**	**373,871**
Total Liabilities		**786,622**	**643,976**	**796,782**	**648,402**
Net Assets		**833,234**	**732,609**	**836,491**	**737,837**
SHAREHOLDERS' EQUITY:					
Ordinary Shares	20	237,929	237,929	237,929	37,929
Hedge Reserve		(64,661)	(43,057)	(64,661)	(43,057)
Retained Earnings		659,966	537,737	663,223	542,965
Total Shareholders' Equity		**833,234**	**732,609**	**836,491**	**737,837**

This statement is to be read in conjunction with the notes on pages 34 to 54

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2005

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	3,037,464	2,057,678	3,037,464	2,057,678
Payments to suppliers and employees	(1,530,385)	(1,261,054)	(1,530,508)	(1,265,785)
Cash Generated From Operations	1,507,079	796,624	1,506,956	791,893
Interest received	6,862	1,784	6,664	6,238
Realised gold hedge settlements	(14,978)	(4,893)	(14,978)	(4,893)
Royalty payments	(54,585)	(35,945)	(54,585)	(35,945)
Mining levy paid	(36,804)	(40,621)	(36,804)	(40,621)
Amounts paid to compensation trust fund	(11,230)	(12,692)	(11,230)	(12,692)
Amounts paid under Community Mine Continuation Agreements	(12,643)	(12,544)	(12,643)	(12,544)
Amounts paid to Shares in Success Scheme	(18,689)	(19,099)	(13,043)	(15,280)
Income tax paid	(301,423)	(203,307)	(301,423)	(203,307)
Net Cash Flows From Operating Activities	**1,063,589**	**469,307**	**1,068,914**	**472,849**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(61,804)	(80,085)	(61,804)	(80,085)
Proceeds from sale of property, plant and equipment	1,355	163	1,355	163
Financial Assurance Fund investment	(25,802)	(28,496)	(25,802)	(28,219)
Net Cash Flows From Investing Activities	**(86,251)**	**(108,418)**	**(86,251)**	**(108,141)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid	(1,005,848)	(365,284)	(1,005,848)	(365,284)
Finance facility establishment fee	(3,498)	(3,969)	(3,498)	(3,969)
Net Cash Flows From Financing Activities	**(1,009,346)**	**(365,284)**	**(1,009,346)**	**(369,253)**
Net decrease in cash and cash equivalents	(32,008)	(8,364)	(26,683)	(4,545)
Cash and cash equivalents at the beginning of the year	267,089	289,061	271,530	289,061
Foreign exchange effect on foreign currency balances	186	(13,608)	388	(12,986)
CASH AT THE END OF THE PERIOD	**235,267**	**267,089**	**245,235**	**271,530**
CASH COMPRISES:				
Cash on hand	16	12	16	12
Operating bank accounts	138,477	267,077	138,477	267,077
Short term deposits	96,774	-	96,774	-
Shares in Success Scheme Limited	-	-	9,968	4,441
Cash and bank balances	**235,267**	**267,089**	**245,235**	**271,530**

This statement is to be read in conjunction with the notes on pages 34 to 54

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2005

RECONCILIATION OF NET PROFIT AFTER TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
Net Profit after Taxation	**1,047,279**	**493,025**	**1,045,308**	**506,100**
Add back non cash items and reclassified amounts:				
Depreciation and amortisation	69,276	63,201	69,276	63,201
Amortisation - Restoration and Rehabilitation	8,435	8,435	8,435	8,435
Amortisation – Lower Ok Tedi Compensation	1,852	1,853	1,852	1,853
Non cash finance charges	10,138	9,812	10,138	9,812
Net (gain)/loss on sale of property, plant and equipment	(1,299)	(23)	(1,299)	(23)
Net exchange (gain)/loss	(845)	(9,960)	(842)	(10,582)
Unrealised hedging (gain)/loss	(1,588)	(6,599)	(1,588)	(6,599)
Amounts credited to provisions against assets	10,463	10,184	10,463	10,184
CHANGES IN ASSETS AND LIABILITIES:				
(Increase)/decrease in trade and other receivables	(331,505)	(16,775)	(329,944)	(16,775)
(Increase)/decrease in inventories	54,017	(97,920)	54,017	(97,920)
Increase/(decrease) in trade and other payables	24,384	9,313	24,384	9,315
Increase/(decrease) in provisions	29,195	7,321	34,952	(5,295)
Increase/(decrease) in income tax provision	154,064	(19,221)	154,126	(19,221)
Increase/(decrease) in deferred tax provision	(10,277)	16,661	(10,364)	20,364
Net Cash Flows from Operating Activities	**1,063,589**	**469,307**	**1,068,914**	**472,849**

This statement is to be read in conjunction with the notes on pages 34 to 54

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

The consolidated financial statements of Ok Tedi Mining Limited and its subsidiaries have been prepared in accordance with the Papua New Guinea Companies Act 1997 and comply with International Financial Reporting Standards and other generally accepted accounting practices in Papua New Guinea. All amounts are stated in Papua New Guinea Kina, the functional currency of the Company, rounded to the nearest thousand kina.

The accounts have been prepared on the basis of historical costs and do not take into account changing money values or current valuations of non-current assets, other than for most financial instruments which are measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

(b) Consolidation

The subsidiary undertakings and special-purpose entities for which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operation are consolidated. They are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. All inter-entity transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

In the Company's financial statements, investments in subsidiaries are stated at the lower of cost or recoverable amount.

(c) Revenue Recognition

Revenue from the sale of copper concentrate is brought to account at the time of shipment to the buyer, when the significant risks and rewards of ownership have been transferred to the buyer, the Company no longer has control over the goods and the amount of revenue can be reliably estimated. The revenue is based on provisional weights, assays and prices and is adjusted when actual values are determined and invoiced in accordance with the terms and conditions of the relevant sales contract.

Unfinalised shipments at balance date are valued using metal prices, weights and assays known at that date. Where, in accordance with the terms of the sales contract, prices have not been finalised, sales values have been determined using three month forward price for copper and spot prices at year end for gold and silver.

The prices used at 31 December 2005 were US$2.01 per pound for copper (2004: US$1.41), US$506.32 per ounce for gold (2004: US$437.35) and US$8.43 per ounce for silver (2004: US$6.79).

(d) Mineral Hedging

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. On the date a derivative contract is entered into, the Company designates the contract as a hedge against specific future production. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged.

Changes in the fair value of derivatives that are designated against future production and that qualify as cash flow hedges, and are deemed highly effective, are recognised in equity. Amounts deferred in equity are transferred to the income statement and classified as revenue in the same periods during which the hedged sales affect the income statement.

Certain derivative instruments, while providing effective economic hedges under the Company's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments, that do not qualify for hedge accounting under IAS 39, are recognised immediately in the income statement.

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PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted production is ultimately recognised in the income statement. However, if the committed or forecasted production is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific forecast concentrate sales. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

In assessing the fair value of non-traded derivatives and other financial instruments, the Company obtains a valuation from an independent external party.

(e) Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount, or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company. All other repairs and maintenance costs are expensed.

Property, plant and equipment are depreciated on a straight-line basis over its estimated economic life or the life of the mine, whichever is shorter. Capital spare parts are depreciated over the life of the equipment for which they are purchased.

The range of estimated economic lives of the major asset categories are:

Buildings	5 years to life of mine
Automotives and other equipment	4 - 10 years to life of mine
Mobile mining equipment	4 years to life of mine
Support facilities	5 years to life of mine
Processing equipment	10 years to life of mine

Gains and losses on disposal of property, plant and equipment are brought to account in the determination of operating profit.

(f) Pre-production Expenditure and Exploration Expenditure

Pre-production expenditure represents the net cost incurred by the Company prior to the commencement of commercial production on 31 January 1985. Such expenditure is being amortised on a straight-line basis over the life of the mine.

All post-production exploration expenditure is expensed as incurred.

(g) Life of Mine

Mining and processing copper ore operations are estimated to continue until the end of 2012. The impact of a change in life of mine estimate is applied prospectively from the beginning of the accounting period during which the change in life has been determined.

(h) Restoration and Rehabilitation

In accordance with IAS 37, "Provisions, Contingent Liabilities, Contingent Assets", a provision is raised for anticipated expenditure to be made on restoration and rehabilitation to be undertaken after mine closure.

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PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

These costs may include the costs of dismantling and demolishing of infrastructure or decommissioning, the removal of residual material, the remediation of disturbed areas and the relocation and retrenchment of employees under an agreed mine closure plan. The amount of any provision recognised is the full amount that has been estimated based on current costs to be required to settle present obligations, discounted using a risk adjusted interest rate of 4.0%. Estimates of future cost are reassessed annually and, due to the long period before estimated mine closure, are subject to uncertainty.

Where future economic benefits are probable a corresponding asset is raised and subsequently amortised using the straight line method.

The Company's restoration, rehabilitation and environmental expenditure policy identifies the environmental, social and engineering issues to be considered and the procedures to be followed when providing for costs associated with the site closure. Site rehabilitation and closure involves the dismantling and demolition of infrastructure not intended for subsequent community use, the removal of residual materials and the remediation of disturbed areas. Community requirements and long term land use objectives are also taken into account.

(i) Compensation

The Company has signed various compensation agreements with the landowners and other surrounding communities affected by the mine. Compensation packages are denominated in local currency and are payable over the life of the mine.

Where payments are contingent upon mine continuation, the anticipated amounts payable annually are accrued on a pro-rata basis. Where payments have to be made regardless of mine continuation, a full provision is created against future expected payments using the same principles as in note 1(h).

(j) Inventories

Copper concentrate and product in process are physically measured or estimated and valued at the lower of cost and net realisable value. Cost is derived on an absorption costing basis which includes fixed and variable overheads and depreciation. Net realisable value is the amount estimated to be obtained from the sale of inventories in the normal course of business, less any costs anticipated to be incurred prior to sale.

Spare parts and consumables are valued at weighted average cost into store. An appropriate provision for stock obsolescence is raised in respect of slow moving inventory.

(k) Foreign Currency Translation

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Kina, which is the Company's functional and presentation currency.

Transactions denominated in foreign currency are translated at a rate of exchange which approximates the rate of exchange at the date of the transaction. Amounts owing to and by the Company denominated in foreign currencies at balance date are translated at exchange rates current at that date.

The rates used at 31 December 2005 for United States dollars and Australian dollars were 0.3255 and 0.4445 equal to one Kina respectively (2004 – 0.3249 and 0.4167 respectively).

Realised and unrealised foreign exchange variations on revenue accounts are recognised in the income statement.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Income Tax

The company provides for all taxes estimated to be payable on net profit for the year. It prepares and lodges its tax return using PNG Kina as the functional and presentation currency.

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised.

Income tax expense in the income statement comprises the estimated tax payable and the movement in deferred tax balances.

(m) Employee Benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and sick leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date, including on-costs.

(ii) Long service leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for those benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due after more than twelve months from the balance sheet date are discounted to present value.

(n) Retirement Benefits

Company contributes to defined contribution schemes on behalf of its employees, and contributions are charged direct to the income statement when payable. Once the contributions have been paid, the Company has no further payment obligations.

(o) Roadco User Charge

The total commitment under the Roadco agreement, for use of the Tabubil Kiunga road during the life of the Mine, was fully prepaid in August 1995. The prepayment is being charged to the income statement on a straight-line basis over the remaining life of the mine.

(p) Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash includes cash at bank and on hand, net of overdraft, and deposits held at call with banks.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Financial Instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, trade creditors, derivative financial instruments and borrowings. These instruments are generally carried at their estimated fair value. For example, receivables are carried net of the estimated doubtful receivables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Where possible, financial assets are supported by collateral or other security. These arrangements are described in the individual policy statements associated with each item.

(r) Impairment of Assets

Impairment of assets is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is measured as the higher of net selling price and value in use. Value in use for individual assets is calculated by discounting future cash flows using a risk adjusted pre-tax discount rate.

(s) Borrowing Costs

Prior to the commencement of commercial production in 1985, the amount of interest costs eligible for capitalisation was based on the actual interest costs incurred because the borrowings were incurred to fund development of the mine property. Capitalisation of borrowing costs ceased following the commissioning of the assets upon commercial production. These are amortised using the straight line basis over the life of the mine. Borrowing costs incurred subsequent to the commencement of commercial production are expensed when incurred. Interest is expensed using the effective interest method. Facility fees are amortised over the period of the facility.

(t) Leases

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to the ownership are assumed by the Company, are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are amortised over their useful lives. Lease payments are allocated between the reduction of the lease liability and the interest expense for the period.

Operating lease payments, where substantially all the risks and benefits remain with the lessor, are expensed as incurred.

(u) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently reduced by provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the recoverable amount. The amount of the provision is recognised in the income statement.

(v) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Non-current provisions are measured at the present value of the expenditures expected to be required to settle the obligation using the pre-tax rate that reflects current market assessment of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(w) Use of Estimates

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant estimates and assumptions relate to the long term copper and gold price, mineral reserves and remaining mine lives, provision for restoration and rehabilitation obligations, recoverability of long-lived assets (including pre-production costs) and depreciation. Actual results could differ from those estimates and may affect amounts reported in future periods. Management believes that the estimates and assumptions are reasonable.

(x) Significant Risks and Uncertainties

During the 2005 financial year, the management of the company observed evidence of acid rock drainage (ARD) greater than expected in the middle reaches of the Fly River. This is predominantly due to sulphide in sediments derived from the mine tailings stream.

Management is reviewing a number of options for mitigating current and future ARD impacts. These include removing sulphur from the tailings stream and storing it under secure conditions, and modifying the mine plan to reduce the amount or rate of sulphur discharged into the river.

Affected communities and other relevant stakeholders are being kept informed of the issues through an ongoing consultation and communication program.

At this stage it is not possible to reliably quantify the potential financial impact of this issue as a result of past or future operations.

In estimating the remaining life of the mine for the purpose of depreciation and amortisation calculations, due regard is given to the volume of remaining economically recoverable reserves but not to limitations that could arise from the potential for changes in technology, demand and other issues, such as early mine closure. These are inherently difficult to estimate and this uncertainty can lead to a financial limitation on the bases of depreciation and amortisation adopted and will be reviewed annually under prevailing circumstances.

Major costs being depreciated or amortised over the existing mine life that would have a significant financial impact should early mine closure eventuate are:

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
Property, plant and equipment	355,863	353,042	353,042	325,917
Pre-production costs	64,671	75,020	75,020	85,401
Restoration and rehabilitation	42,173	50,608	50,608	171,538
Lower Ok Tedi (LOTL) compensation	9,260	11,113	11,113	13,100
Roadco prepayment	25,578	29,233	29,233	32,886
Total unexpected costs	**497,545**	**519,016**	**519,016**	**628,842**

(y) Comparative Figures

Comparative figures have been amended where appropriate to comply with changes in presentation adopted in the current period.

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
2(A) SALES REVENUE				
Copper	2,446,857	1,463,576	2,446,857	1,463,576
Gold	833,146	605,944	833,146	605,944
Silver	28,324	18,843	28,324	18,843
Total Sales Revenue	**3,308,327**	**2,088,363**	**3,308,327**	**2,088,363**
2(B) OTHER OPERATING INCOME				
Insurance recoveries	16,954	-	16,954	-
Other	4,276	2,972	4,276	2,972
Total Other Operating Income	**21,230**	**2,972**	**21,230**	**2,972**
3(A) OPERATING COSTS				
Changes in inventories of product on hand and in process (increase)/decrease	71,046	(63,591)	71,046	(63,591)
Operating costs, external charges and materials	76,799	76,764	76,799	76,764
Marketing costs	526,842	291,478	526,842	291,478
Loss on derivative financial instruments (note27)	13,390	1,181	13,390	1,181
Contractors and consultants	242,534	270,232	242,534	270,232
Consumables	351,699	331,023	351,699	331,023
Services and others	235,396	202,507	235,396	202,507
Salaries, wages and associated staff costs (note 32)	201,327	178,113	201,327	178,113
Gain on sale of non-current assets	(1,299)	(23)	(1,299)	(23)
Depreciation of property, plant and equipment	58,927	52,820	58,927	52,820
Amortisation of restoration and rehabilitation asset	8,435	8,435	8,435	8,435
Amortisation of LOTL – Compensation asset	1,852	1,853	1,852	1,853
Amortisation of pre-production expenditure	10,349	10,381	10,349	10,381
Total Operating Costs	**1,797,297**	**1,361,173**	**1,797,297**	**1,361,173**
Included in operating profit before tax are the following items:				
Auditor's remuneration:				
- Auditing services	446	362	446	362
- Other services	164	160	164	160
Charge to provision for employee benefits	26,455	27,303	26,258	27,303
Charge to provision for obsolete stock	10,377	9,979	10,377	9,979
Roadco user charge amortisation	3,654	3,654	3,654	3,654
Charge to provision for compensation	9,675	10,153	9,674	10,153
Charge to provision for doubtful debts	294	205	294	205
Donations	383	205	383	205
Charge to provision for Community Mine Continuation Agreements	12,333	14,520	12,333	14,520

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
3(A) OPERATING COSTS (CONTINUED)				
Royalties paid/payable	35,000	22,665	35,000	22,665
Mining levy paid/payable	36,401	40,671	36,401	40,671
Legal fees paid	1,268	2,007	1,268	2,007
Operating lease expenses	107,311	107,250	107,311	107,250
3(B) NET FINANCE COSTS				
Interest income	(7,681)	(1,784)	(7,750)	(6,238)
Net foreign exchange (gain)/loss	34,311	19,236	36,374	6,892
Realisation of discount on long term provisions:				
- Compensation	346	388	346	388
- Restoration and rehabilitation	9,792	9,424	9,792	9,424
Finance charges	3,154	2,677	3,154	2,697
Total Net Finance Costs	**39,922**	**29,941**	**41,916**	**13,163**
4. INCOME TAX EXPENSE				
The prima facie tax charge on the profit for the year is reconciled to the income tax expense as follows:				
Profit for the year	1,492,338	700,221	1,490,344	716,999
Prima facie income tax on the profit for the year at 30%	447,701	210,066	447,103	215,100
Tax effect of permanent differences:				
Non-deductible items	263	-	861	-
Non-taxable income	(1,519)	(809)	(1,519)	(2,140)
Double deduction – staff training	(1,386)	(949)	(1,386)	(949)
Under/(over) provision in prior years	-	(1,112)	(23)	(1,112)
Income Tax Expense	**445,059**	**207,196**	**445,036**	**210,899**
Tax expense comprises:				
Income tax - current year	455,487	199,397	455,551	199,397
- prior year	-	(1,112)	-	(1,112)
Deferred tax - current year	(10,277)	8,911	(10,364)	12,614
- prior year	(151)	-	(151)	-
Total Income Tax Expense	**445,059**	**207,196**	**445,036**	**210,899**
5. CASH AND CASH EQUIVALENTS				
Cash on hand	16	12	16	12
Cash at bank	138,477	267,077	138,477	267,077
Short term deposits	96,774	-	96,774	-
Shares in Success Scheme Limited	-	-	9,968	4,441
Total Cash and Cash Equivalents	**235,267**	**267,089**	**245,235**	**271,530**

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
6. TRADE & OTHER RECEIVABLES (CURRENT)				
Accounts receivable - trade	475,273	140,862	475,273	140,862
Accounts receivable - sundry	15,632	10,694	15,632	10,694
	490,905	151,556	490,905	151,556
Less: Provision for doubtful debts (a)	814	728	814	728
Total Current Receivables	**490,091**	**150,828**	**490,091**	**150,828**
(a) Provision for doubtful debts				
Opening balance	728	523	728	523
Increase in provision	294	205	294	205
Write-offs applied against provision	(208)	-	(208)	-
Closing balance	**814**	**728**	**814**	**728**
7. INVENTORIES (CURRENT)				
Consumables:				
Spare parts and consumables	135,456	115,748	135,456	115,748
Goods in transit	20,329	33,384	20,329	33,384
Total Consumables	**155,785**	**149,132**	**155,785**	**149,132**
Concentrate:				
Product in process	21,717	34,010	21,717	34,010
Product on hand	66,142	124,895	66,142	124,895
Total Concentrate	87,859	158,905	87,859	158,905
Total Current Inventories	**243,644**	**308,037**	**243,644**	**308,037**
8. OTHER ASSETS (CURRENT)				
Prepayments	25,365	29,344	25,365	29,344
Home Ownership Scheme loans receivable	1,625	1,906	1,625	1,906
Sundry receivables - Shares in Success	-	-	296	-
Total Current Other Assets	**26,990**	**31,250**	**27,286**	**31,250**
9. INVENTORIES (NON-CURRENT)				
Spare parts and consumables	35,877	25,500	35,877	25,500
Less: Provision for obsolete stock (a)	35,877	25,500	35,877	25,500
Total Non-Current Inventories	**-**	**-**	**-**	**-**
(a) Provision for obsolete stock				
Opening balance	25,500	15,521	25,500	15,521
Provisions created	10,377	9,979	10,377	9,979
Write-offs applied against provision	-	-	-	-
Closing balance	**35,877**	**25,500**	**35,877**	**25,500**

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	LAND & BUILDINGS K'000	PLANT MACHINERY & EQUIPMENT K'000	CAPITAL WORKS IN PROGRESS K'000	TOTAL K'000
10. PROPERTY, PLANT AND EQUIPMENT				
Opening cost	304,691	935,216	43,330	1,283,237
Opening accumulated depreciation	(231,440)	(698,755)	-	(930,195)
Opening net book value	73,251	236,461	43,330	353,042
Additions	-	-	61,804	61,804
Transfer from Capital Works in Progress	585	42,412	(42,997)	-
Disposals and adjustments	(1)	(55)	-	(56)
Depreciation charge	(9,180)	(49,747)	-	(58,927)
Closing net book value	**64,655**	**229,071**	**62,137**	**355,863**
Cost	305,275	966,475	62,137	1,333,887
Accumulated depreciation	(240,620)	(737,404)	-	(978,024)
Closing book value	**64,655**	**229,071**	**62,137**	**355,863**

In accordance with the Mining (Ok Tedi Agreement) Act the Independent State of Papua New Guinea ("the State") has the right, at any time prior to the closure of the mine, to acquire certain infrastructure fixed assets. Notwithstanding such acquisition the company shall have the right to use and priority of use of these facilities. The accounting written down value of these fixed assets is K90,459,743 (31 Dec 2003: K101,767,211). At the time that these accounts were prepared the company has not received, and does not expect to receive, notice that the State intends to acquire any of the assets concerned.

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
11. PRE-PRODUCTION EXPENDITURE				
Opening net book value	75,020	85,401	75,020	85,401
Disposals and adjustments	-	-	-	-
Reclassifications	-	-	-	-
Amortisation	(10,349)	(10,381)	(10,349)	(10,381)
Closing net book value	**64,671**	**75,020**	**64,671**	**75,020**
Cost	384,940	384,940	384,940	384,940
Accumulated amortisation	(320,269)	(309,920)	(320,269)	(309,920)
Closing book value	**64,671**	**75,020**	**64,671**	**75,020**

	COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
	K'000	K'000	K'000	K'000
12. RESTORATION AND REHABILITATION ASSET				
Opening net book value	50,608	171,538	50,608	171,538
Re-assessment of expected restoration and rehabilitation costs	-	(112,495)	-	(112,495)
Less: Amortisation	(8,435)	(8,435)	(8,435)	(8,435)
Closing net book value	**42,173**	**50,608**	**42,173**	**50,608**
Cost	141,998	141,998	141,998	141,998
Less: Accumulated amortisation	(99,825)	(91,390)	(99,825)	(91,390)
Net book value	**42,173**	**50,608**	**42,173**	**50,608**
13. OTHER ASSETS (NON-CURRENT)				
Roadco prepayment (note 1o)	21,924	24,173	21,924	24,173
Home Ownership Scheme loans	2,955	2,671	2,955	2,671
Prepaid lease costs	402	937	402	937
LOTL - Compensation asset (a)	9,260	11,113	9,260	11,113
Total Non-current Other Assets	**34,541**	**38,894**	**34,541**	**38,894**

(a)The LOTL compensation asset was created when a provision was created for all the payments in terms of the Lower Ok Tedi compensation agreement. The compensation payments give the Company the benefit of being able to continue future mining operations. The balance is amortisaed over the life of mine.

14. TRADE AND OTHER PAYABLES (CURRENT)				
Current (unsecured)				
Accounts payable - trade	116,393	94,244	116,393	94,244
Accounts payable - other	4,383	4,563	4,383	4,563
Total Current Trade and Other Payables	**120,776**	**98,807**	**120,776**	**98,807**
15. INCOME TAX LIABILITY (CURRENT)				
Opening balance	20,723	39,944	20,723	39,944
Tax expense	455,487	184,086	455,551	184,086
Payments	(301,423)	(203,307)	(301,423)	(203,307)
Closing balance	**174,787**	**20,723**	**174,851**	**20,723**

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	COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
	K'000	K'000	K'000	K'000
16. PROVISIONS (CURRENT)				
Employee entitlements (note 18a)	20,948	22,379	20,948	22,379
Compensation provision - 8th Supplemental (note 18b)	9,590	9,448	9,590	9,448
- Lower Ok Tedi (note 18b)	2,152	2,097	2,152	2,097
Community Mine Continuation Agreement (a)	4,167	4,477	4,167	4,477
Shares in Success Scheme (SISS) (note 25)	52,941	21,125	43,792	17,254
Total Current Provisions	**89,798**	**59,526**	**80,649**	**55,655**
(a) Community Mine Continuation Agreement (Current)				
Opening balance	4,477	2,501	4,477	2,501
Provision created	12,333	14,520	12,333	14,520
Less: Payments made against the provision	(12,643)	(12,544)	(12,643)	(12,544)
Closing balance	**4,167**	**4,477**	**4,167**	**4,477**
17. DEFERRED INCOME TAX (NON-CURRENT)				
Deferred Income Tax comprises:				
- Provisions	(69,558)	(59,246)	(69,558)	(59,246)
- Prepayments / Consumable inventory	67,561	63,401	67,561	63,401
- Property, plant and equipment	44,127	48,833	44,127	48,833
- Trading inventory	6,572	6,176	6,572	6,176
- Hedging	(27,712)	(18,453)	(27,712)	(18,453)
- Other	(6,075)	(6,260)	(6,177)	(6,275)
Total Deferred Income Tax	**14,915**	**34,451**	**14,813**	**34,436**
Movement in deferred income tax:				
Opening balance	34,451	19,757	34,436	16,039
Charged to income statement	(10,277)	16,661	(10,364)	20,364
Charged to equity	(9,259)	(1,967)	(9,259)	(1,967)
Closing balance	**14,915**	**34,451**	**14,813**	**34,436**

	COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
	K'000	K'000	K'000	K'000
18. PROVISIONS (NON-CURRENT)				
Employee entitlements (a)	23,419	21,946	23,419	21,946
Lower Ok Tedi Compensation (b)	5,850	7,602	5,850	7,602
Employee incentives (SISS) provision (note 25)	-	-	19,347	8,312
Total Non-current Provisions	**29,269**	**29,548**	**48,616**	**37,860**
(a) Employee entitlements (Current and Non-current)				
Opening balance	44,325	34,392	44,325	34,392
Provision created	26,455	27,303	26,258	27,303
Less: Payments made against the provision	(26,413)	(17,370)	(26,216)	(17,370)
Closing balance	**44,367**	**44,325**	**44,367**	**44,325**
Current (note 16)	20,948	22,379	20,948	22,379
Non-current	23,419	21,946	23,419	21,946
Closing balance	**44,367**	**44,325**	**44,367**	**44,325**
(b) Compensation provision (Current and Non-current)				
Opening balance	19,147	21,686	19,147	21,686
Provision created	9,675	10,153	9,675	10,153
Less: Payments made against the provision	(11,230)	(12,692)	(11,230)	(12,692)
Closing balance	**17,592**	**19,147**	**17,592**	**19,147**
Current (note 16)	11,742	11,545	11,742	11,545
Non-current	5,850	7,602	5,850	7,602
Closing balance	**17,592**	**19,147**	**17,592**	**19,147**
19. RESTORATION AND REHABILITATION				
Opening balance	242,688	381,319	242,688	381,319
Re-assessment of provision	-	(112,495)	-	(112,495)
Impact of change in exchange rate on provision	(453)	(35,560)	(453)	(35,560)
Interest charged	9,792	9,424	9,792	9,424
Closing balance	**252,027**	**242,688**	**252,027**	**242,688**
20. ORDINARY SHARES				
Issued and paid up capital				
235,000,000 ordinary shares with no par value	**237,929**	**237,929**	**237,929**	**237,929**

21. DIVIDENDS PAID AND DECLARED

As defined in the Company's Constitution, the Available Cash Flow of the prior financial year determines, without the need for declaration, the level of ordinary dividends payable each year.

The Constitution provides that holders of not less than 85% of the ordinary shares of the Company may vote to:

-pay interim dividends as in the judgment of the Directors that the position of the Company justifies; and

-reduce or increase the amount or delay the payment of an ordinary dividend.

21. DIVIDENDS PAID AND DECLARED (CONTINUED)

The shareholders agreed to pay dividends in the following manner during the financial year:

	COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
	K'000	K'000	K'000	K'000
First interim dividend	153,871	131,352	153,871	131,352
Second interim dividend	155,087	107,215	155,087	107,215
Third interim dividend	154,560	-	154,560	-
Fourth interim dividend	153,912	-	153,912	-
Final dividend	307,620	156,511	307,620	156,511
Dividends declared	**925,050**	**395,078**	**925,050**	**395,078**

Dividends payable of K81,642,000 on shares held by Mineral Resources Ok Tedi No.2 Ltd, as at 31 December 2004 has been fully paid out during the year.

22. CONTINGENCIES

(a) Guarantees

Bank of South Pacific	75	93	75	93
Total Guarantees	**75**	**93**	**75**	**93**

(b) Credit Facility Covenants

The Company has an unutilised credit facility with ANZ Bank for $75 million. If funds are withdrawn then the balance must at all times be covered by the collateral value of 80% of stock and 90% of receivables.

The following collateral is provided:

1. Fixed and floating charge over all finished concentrate inventory;
2. Assignment of all rights of OTML under its Export Contracts, in particular the rights to receive funds from off-takers; and
3. All export proceeds routed through a collection account held at ANZ.

The facility is restricted from being used to make the following payments:

- Repayment of other borrowings
- Payment of dividends during drought
- Capital expenditure in excess of US$5 million

Interest is charged daily at LIBOR plus 2.5% (inclusive of PRI insurance) on outstanding borrowing and a commitment fee of 0.95% is charged on the available commitment.

(c) Litigation

No litigation of a significant nature is currently underway.

The agreement that led to the dismissal of proceedings in relation to environmental damage included an undertaking by the Company to use best endeavours to include the villages that supported the actions in the Community Mine Continuation Agreement (CMCA) process. There is no obligation for the inclusion of these villages to add to the total amount paid under the existing CMCA's.

23. COMMITMENTS

(a) Compensation Payments

The Mining (Ok Tedi Restated Eighth Supplemental Agreement) Act 1995 (No. 48) of Papua New Guinea was enacted in August 1995 and required the Company to make annual payments to compensation trusts over the remaining life of the mine. Required payments have been made by the Company and current liabilities are recognised in the accounts.

The Mining (Ok Tedi Restated Ninth Supplemental Agreement) Act 2001 (No. 7) was enacted in 2001 and required the Company to make annual payments aggregating to K175.7 million over the life of mine to landowners, Middle Fly, North Ok Tedi, Lower Ok Tedi, South Fly and Highway Communities. The Act was an agreement between the respective communities to allow the mine to continue to its planned closure date in 2012.

(b) Capital Expenditure

As at 31 December 2005, the Company had contracted for capital commitments totalling K8,312,690 which are not provided for in the accounts (31 December 2004: K3,594,772).

(c) Operating Leases

Further minimum lease payments under operating leases for property and equipment not provided for in the accounts are:

	COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
	K'000	K'000	K'000	K'000
Due within 1 year	90,746	97,886	92,830	97,886
Due within 1-2 years	77,399	89,599	82,568	89,599
Due within 2-5 years	91,988	157,715	104,381	157,715
Due after 5 years	-	9,777	622	9,777
Total	**260,133**	**354,977**	**280,401**	**354,977**

The lease commitments were calculated on the following property and equipment:

Items Leased	Basis	Expiry dates	Renewal options	Restrictions
Sea transport	Daily rates	December 2009	Yes	No
Air transport	Monthly rates	August 2008	Yes	No
Other property and equipment	Daily rates	October 2006	Yes	No

24. INSURANCE

The Company self insures the first K7,680,492 (2004: K7,694,675) of its insurable property risks and the first K61,443,933 (2004: K61,557,402) of its insurable business interruption risks. The company then retains 50% of any loss incurred on the next K76,804,916 in excess of the above amounts on a combined basis of both property and business interruption risks.

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25. INVESTMENT IN SUBSIDIARIES

The holding company's investment in subsidiaries comprises shares at cost.

	Ordinary shares	% Shareholding
Ok Tedi Development Foundation Limited	2	100%
OTML Shares in Success Scheme Limited	2	100%

Ok Tedi Development Foundation Limited

Apart from share capital, this company does not have any assets or liabilities and did not trade during the year.

OTML Shares in Success Scheme Limited (SISS)

SISS is a Trustee company established to assist in the retention of employees until the end of mine life by making annual incentive payments.

The Company is required to pay SISS an annual amount of 5.2% of Available Cash Flow (denominated in US dollars and translated based on the month-end exchange rate). As at 31 December 2005, the Company had the following liability:

	COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
	K'000	K'000	K'000	K'000
Opening balance	21,125	22,788	25,566	22,788
Provisions created	50,614	18,058	50,614	18,058
Less: Payments made against the provision	(18,689)	(19,099)	(13,043)	(15,280)
Less: Exchange variance	(109)	(622)	2	-
Closing balance	**52,941**	**21,125**	**63,139**	**25,566**
Current (note 16)	52,941	21,125	43,792	17,254
Non-current (note 18)	-	-	19,347	8,312
Total SISS Liability	**52,941**	**21,125**	**63,139**	**25,566**

26. OK TEDI FINANCIAL ASSURANCE FUND

In accordance with the Mining Act (Ok Tedi) Ninth Supplemental Agreement, a separate independent bank account must be created for semi-annual payments by the Company to provide sufficient cash at mine closure for settlement of mine rehabilitation and restoration liabilities. These liabilities are currently estimated by the Company and agreed with the State at US$100 million. To give effect to the arrangement, the Ok Tedi Financial Assurance Fund has been established with an independent Trustee. The Company makes semi-annual payments to the Fund and these are held by the Trustee to be applied in assisting both the company and the State to comply with their respective obligations under the Mine Continuation Act and the Mine Closure Plan.

The assets of the Fund are legally separate from the Company and are not available to meet the claims of creditors in any winding up of the Company. They are irrevocably dedicated to funding the mine closure costs and cannot be used for any other purpose. Contributions to the Fund are initially recorded at cost and the Company recognises its receivable from the Fund at fair value.

However, in accordance with accounting practice, the Fund is considered to be a special purpose entity controlled by the Company and is consolidated in the Group financial statements. The assets of the Fund at 31 December 2005 comprised a portfolio of investments, valued at balance date at K126.8 million, being managed by the Standard Bank Offshore Trust Company (Jersey) Ltd. These investments are accounted for as a financial asset at fair value through profit and loss.

Total contributions by the Company to the Fund and the consolidated Fund equity are summarised as follows:

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
Opening balance	98,055	86,615	103,268	75,049
Payment	25,802	28,496	25,802	28,496
Portfolio return	-	-	(1,857)	4,436
Exchange variance	(179)	(17,056)	(382)	(4,713)
Closing balance	**123,678**	**98,055**	**126,831**	**103,268**

27. FINANCIAL RISK MANAGEMENT

(a) Financial Risk Factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk), credit risk, liquidity risk and cash flow interest rate risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the treasury department under policies approved by the board.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Derivative Financial Instruments

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
Current Assets				
Lease rate swap	1,936	2,462	1,936	2,462
Non-current Assets				
Lease rate swap	1,002	1,300	1.002	1,300
Current Liabilities				
Forward contracts	(35,183)	(17,704)	(35,183)	(17,704)
Put options	-	-	-	-
	(35,183)	(17,704)	(35,183)	(17,704)
Non-current Liabilities				
Forward contracts	(69,867)	(58,849)	(69,867)	(58,849)
Lease rate swaps	-	(38)	-	(38)
	(69,867)	(58,887)	(69,867)	(58,887)
Net Derivative Financial Instruments	**(102,112)**	**(72,829)**	**(102,112)**	**(72,829)**

Hedging is undertaken in order to avoid or minimise possible adverse financial or cash flow effects of movements in commodity prices.

The following gold forward contracts, which were entered into with Macquarie Bank Limited, were outstanding at balance date:

CONTRACT PERIOD	PERIODICITY	OUNCES PER PERIOD	TOTAL OUNCES	COMMITTED PRICE US$ PER OUNCE
Oct 2005 – June 2006	Quarterly	18,750	56,250	368.00
Sept 2006 – June 2007	Quarterly	18,750	75,000	370.00
Sept 2007 – June 2008	Quarterly	18,750	75,000	372.00
			206,250	

All commodity contracts are settled other than by physical delivery of the underlying commodity. On maturity, the contracted price is compared to the spot price on that date and the price differential is applied to the contracted quantity. A net amount is paid or received by the Company.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company does not enter into hedging transactions that have provisions for margin calls.

Future derivative financial instrument gross income is expected to be a minimum of K234.6 million, based on the month-end exchange rate (2004: K319.6million). Gross income based on the same number of ounces at the prevailing spot price at 31 December 2005 of US$517.50 (2004: US$438.40) would be K327.9 million (2004: K379.5 million).

At balance date, the estimated fair value of the total hedge portfolio was determined by an independent financial institution to be K102.1 million (based on the month-end exchange rate) out of the money (2004: K72.8 million). This represents the amount the Company would be required to pay if it terminated all derivative financial instruments at 31 December 2005.

K92.4 million (2004: K61.5 million) of this liability has been recognized as effectively hedged and accordingly has been deferred and transferred to equity as hedge reserve.

Included in operating profit for the year is derivative financial instrument income (losses) of:

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
Gold hedging - Realised gain/(loss)	(14,978)	(4,893)	(14,979)	(4,893)
- Unrealised gain/(loss)	1,588	3,712	1,589	3,712
Total gold hedging gain/(loss) (note 3a)	**(13,390)**	**(1,181)**	**(13,390)**	**(1,181)**

(b) Credit Risk Exposures

The credit risk on financial assets of the Company which have been recognised on the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

For off-balance sheet derivatives, credit risk arises from the potential failure of counter parties to meet their obligations under the respective contracts. With respect to commodity contracts outlined above, the Company has an exposure to loss in the event counter parties fail to settle on contracts which are favourable to the Company.

For trade receivables and financial commitments, the Company only deals with counter parties with a credit rating of BBB - or better. Since trade sales are spread over a number of customers the Company believes that no significant concentration of credit risks exists.

(c) Interest Rate Risk Exposures

The Company does not enter into term deposits or other long term investments. At the balance sheet date the Company did not have any interest bearing finance.

(d) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Company approximates their carrying value.

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28. RELATED PARTY TRANSACTIONS

(a) Ownership

Shareholders and their respective shareholding are as follows:

	ORDINARY SHARES	% HOLDING
PNG Sustainable Development Program Limited (PNGSDP)	122,200,000	52
Inmet Mining Corporation	42,300,000	18
Independent State of Papua New Guinea	47,000,000	20
Minerals Resources Ok Tedi No 2 Limited	23,500,000	10
	235,000,000	**100**

The terms of the Company's constitution and the shareholders' agreement do not provide PNGSDP with any control over the Company independent from other shareholders.

Transactions with the Independent State of Papua New Guinea predominantly comprise the payment of taxes and other statutory payments. The following related party transactions were between the Company and PNGSDP:

(b) Amount receivable from related party

Total amounts receivable at 31 December 2005 totalled KNil (2004: K589,000).

(c) Transactions during the year

Commitment fees reimbursed totalled K612,000 (2004: K1,217,000).

(d) Key management compensation

	2005 K'000	2004 K'000
Salaries and short-term employment benefits	11,636	10,653
Termination benefits	-	-
Post employment benefits	251	250
Total Compensation	**11,887**	**10,903**

29. RECEIVABLES AND PAYABLES DENOMINATED IN FOREIGN CURRENCIES

	COMPANY		CONSOLIDATED	
	2005 K'000	2004 K'000	2005 K'000	2004 K'000
Assets:				
Cash - US Dollars	217,437	255,891	217,437	255,891
- Australian Dollars	7,982	7,351	7,982	7,351
Receivables – US Dollars	475,273	140,862	475,273	140,862
Advances to Starwest – US Dollars	-	4,617	-	4,617
Financial Assurance Fund receivable	123,677	98,055	126,831	103,268
Liabilities:				
Payables - US Dollars	6,640	14,830	6,640	14,077
- Australian Dollars	7,125	26,214	7,125	26,214
Deferred Income	46,645	-	46,645	-
Dividend Provision - US Dollars	-	81,642	-	81,642
Provision for Shares in Success Scheme - US Dollars	52,942	21,125	52,942	21,125
Provision for restoration & rehabilitation - US Dollar	252,027	242,688	252,027	242,688

Due to the nature of the Company's revenue and expenditure the Company does not enter into formal currency hedge contracts.

30. INCORPORATION AND REGISTERED OFFICE

The Company is incorporated in Papua New Guinea. The Registered Office and Address for Services is 1 Dakon Road, Tabubil, Western Province, Papua New Guinea.

31. POST BALANCE DATE EVENTS

There were no significant events requiring adjustment or additional disclosure from the end of the financial year to the date of this report.

32. EMPLOYEE BENEFITS

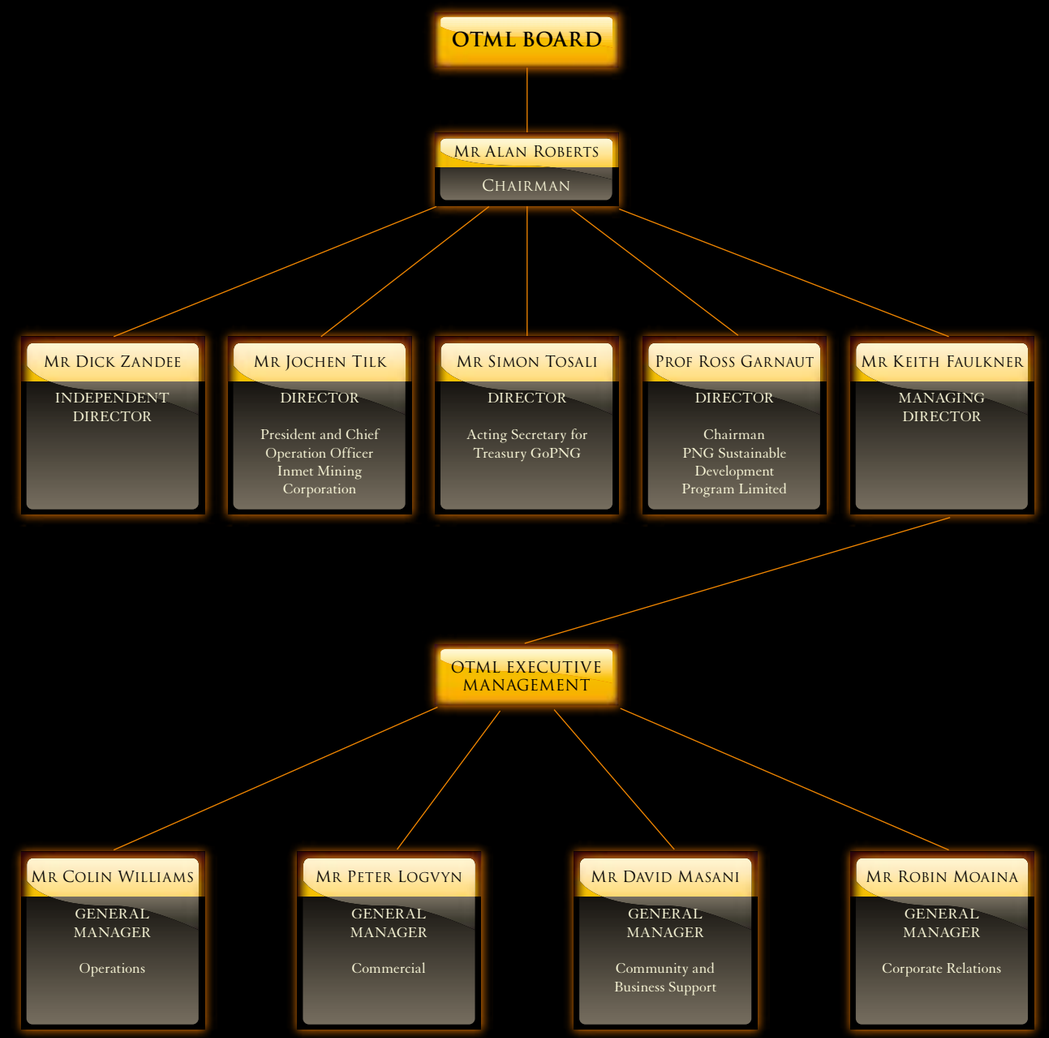
The average number of people employed by the Company during the year was 2,043 (2004: 1,993).

Staff costs comprise the following:				
Salaries and wages	129,799	141,153	129,799	141,153
Contribution to retirement benefit funds	7,057	6,374	7,057	6,374
Other employee on-costs	13,857	12,528	13,857	12,528
Shares in Success Scheme (SISS)	50,614	18,058	50,614	18,058
Total Staff Costs	**201,327**	**178,113**	**201,327**	**178,113**

33. SEGMENT REPORTING

The Company produces copper and gold in Papua New Guinea with sales to global customers.

OK TEDI MINING LIMITED MANAGEMENT STRUCTURE



LOGISTICS
SUPPORT

Transportation of all the materials that sustain a huge mining operation begins with a 1000km boat journey up the meandering Fly River, and ends with a challenging convoy climb along the Kiunga to Tabubil highway. Heavy trucks and trailers hold right of way over all other traffic as they sweep uphill towards their final destination.

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